

Louisiana Recovery Authority

DRAFT

The Road Home Housing Programs

Program Descriptions

March 16, 2006

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1. Introduction

Hurricane Katrina hit the state of Louisiana on August 29, 2005, and Rita slammed into the state on September 24, 2005. They were the second and third Category 5 hurricanes of the 2005 hurricane season. The storms were deadly and costly to communities throughout the Gulf and particularly destructive to Louisiana. More than 1,100 persons lost their lives in Louisiana; approximately 18,000 businesses were destroyed; roads, schools, public facilities, medical services were washed away; and thousands of people were forced to relocate.

In the wake of the storms an unprecedented numbers of homes were destroyed or severely damaged.

- 122,000 homes were destroyed or suffered major damage.
- 84,000 rental properties were destroyed or suffered major damaged.
- Repair costs are estimated at \$32 billion. Some, but not all, of this was insured.
- Of the rental and owner occupied units that are now uninhabitable, a substantial portion were occupied by low income households.

HR 2863, provided \$11.5 billion to the states of Mississippi, Louisiana, Alabama, Florida and Texas through the U.S. Department of Housing and Urban Development's Community Development Block Grant (CDBG) Program. Of the funds appropriated Louisiana received \$6.2 billion. An additional \$4.2 billion in resources are pending appropriation by Congress. The CDBG funds are available to the state subject to HUD's approval of Action Plans which describe how the funds will be used. The Louisiana Recovery Authority has been charged by the Governor and Louisiana Legislature with statutory responsibility for recommending policy and Action Plans for the Community Development Block Grant funds provided by Congress in response to Hurricanes Katrina and Rita. The Louisiana Office of Community Development, the agency that runs the state's regular CDBG Program, will administer the CDBG recovery program.

This Action Plan describes three sets of programs for the restoration of Louisiana's housing stock and its communities: The Road Home - A Homeowner Assistance Program, Workforce and Affordable Rental Housing Programs, and Other Developer Incentives. Other Action Plans will describe other aspects of the State's program.

1.1 Goals of *The Road Home* Housing Recovery Programs

The Road Home Housing Programs have several goals. They will:

- Repair and rebuild quality housing in neighborhoods that are safe to live in;
- Restore pre-storm value to homeowners who want to return;
- Provide affordable rental housing opportunities for displaced residents; and
- Provide housing for the return of critical workforce.

The Road Home Housing Programs will achieve their goals by ensuring, among other things, that:

- Neighborhoods are rebuilt pursuant to locally driven plans that emphasize safety and reduce risks in rebuilding;

- Homes are rebuilt in ways that ensure safer and smarter construction and meet the State's codes and FEMA advisory base flood elevations;
- Neighborhoods are rebuilt in a manner that promotes mixed income communities; and
- Households with special needs such as the elderly and those with disabilities are provided housing opportunities;

1.2 Basis for Recommendations

The programs described in this Action Plan are based on the best available information on housing needs, housing costs, potential public funding and the ability of the programs to leverage private resources. Funds available to finance the homeowner programs will come from a special appropriation of Community Development Block Grant Program funds and from FEMA Hazard Mitigation Funds. In addition to grants already appropriated, the State is seeking an additional \$4.2B in CDBG funds.

If federal agencies require changes to the State's plans or Congress does not provide additional, sufficient funding, Louisiana will be required to modify these proposed plans.

1.3 Estimated Cost of The Road Home Programs

Subject to further refinement of the program guidelines and structures for operations, following are preliminary estimates of program costs:

Assistance to owner occupants	\$7.500 Billion	Includes \$1.7B Hazard Mitigation funds
Workforce and affordable rental housing	\$1.675 Billion	
Other developer incentives	\$0.075 Billion	
Total	\$9.250 Billion	

The \$1.75 billion in CDBG funds directed to workforce and affordable rental housing and developer incentives will be supplemented by an estimated \$1.7 billion in private equity investments derived from Low Income Housing Tax Credits allotted to Louisiana through the Gulf Opportunity Zone legislation.

2. Assistance to Owner Occupants¹

2.1 Overview of The Road Home – A Homeowner Assistance Program

In the aftermath of Hurricanes Katrina and Rita, an estimated 122,000 owner-occupied homes were destroyed or suffered major damage, according to FEMA. In response to this unprecedented disaster – if Congress appropriates additional funds – the state will use \$7.5 billion in federal disaster recovery funds to help owner-occupants repair or rebuild their homes, buy replacement homes in Louisiana, or sell unwanted properties so they can be redeveloped or converted to open space. In order to avoid future flood losses, all reconstruction work will meet or exceed the latest available FEMA guidance on flood hazard mitigation. Implementation of the The Road Home - A Homeowner Assistance Program is contingent upon an appropriation of \$4.2 billion in federal disaster recovery funds in addition to funds already appropriated.

The overarching purpose of the program is to rebuild lives and communities, not just to provide compensation for losses. Devastated communities will be blighted by abandoned homes, clouded land titles, and disinvestments if a large portion of the financial assistance is not directly invested in rebuilding homes or buying replacement homes. Therefore, the most comprehensive financial and technical assistance packages will be made available to those pre-Katrina and Rita homeowners who make the effort and take the risks to move back to play a part in rebuilding Southern Louisiana.

Financial assistance and advisory services will be available for homeowners who wish to:

- Repair – rehabilitate their property up to the minimum standards of the program;
- Rebuild – construct new home on the same lot because repairs are too costly or cannot be made to be compliant with local codes;
- Buyout/Relocate – purchase of the home by the program in exchange for an agreement to resettle in Louisiana, which is particularly beneficial to owners in areas with little or no redevelopment activity; or
- Sell – voluntarily sell the home with no requirements to resettle or otherwise remain in the community.

The Homeowner Assistance Program is designed to achieve the overarching goals of the The Road Home Housing Programs. In addition, given the magnitude of the task, the diversity of the population to be served, and the importance of moving quickly, the Homeowner Assistance Program will strive to achieve balance among the following principals:

- Fairness – treating households in similar circumstances in a similar manner
- Simplicity and speed – given the large number of homeowners to be assisted and their immediate needs, the program must provide resources in a way that minimizes bureaucracy and maximizes speed of delivering services.

¹ For the purpose of this paper homeowner and owner occupant are used interchangeably.

- Accessibility – some owners will need little more than a phone number to call or address to visit to obtain assistance. Others will need help from professionals to make hard choices about their options related to repair, replacing or selling their home. The program will endeavor to provide services to those who need a little extra help but provide streamlined processing for those who do not.

2.2 Eligibility for Homeowner Assistance

To be eligible for the Homeowner Assistance Program:

- The owner must have occupied the property as a primary residence at the time of the Katrina/Rita disasters, prior to August 29, 2005;
- The home must in be a single structure²;
- The applicant must be able to prove that he or she owns the home; and
- The owner must have registered for FEMA Individual Assistance and the home must be categorized by FEMA as having been “destroyed” or having suffered “major” damage. Homeowners who were approved by FEMA for \$5,200 or more in FEMA home repair assistance (a component of the Individual Assistance Program) will fall into one of these categories.

Applicants must meet all of the above requirements to receive assistance.

2.3 Requirements for Receipt of Funds

In pursuing assistance from the Homeowner Assistance Program, homeowners must:

- Be registered and have been approved for FEMA Individual (Household) Assistance;
- Be willing to sign a release so that information given to FEMA can be verified by the Program;
- Independently from FEMA, agree to verification of their ownership status and the amount of disaster-related damage to the home;
- Swear to the accuracy and completeness of all information provided to the Program under penalty of law;
- Agree to bring their properties up to the minimum rehabilitation standards to be prescribed by the program or local authorities³, conform with the State’s adopted Uniform

² Properties that housed an owner-occupant and renters are currently eligible only for the Homeowner Assistance Program, but not the rental property assistance programs.

³ The program will publish minimum design and construction standards and provide technical resources to ensure that homes are rebuilt with features that meet or exceed minimum code and the latest available FEMA guidance for base flood elevations. These guidelines and resources will emphasize the benefits of—and practical ways to achieve—energy conservation, durability, mold mitigation, preservation of historic features, and other ways in which the housing stock can become better than ever.

Construction Code⁴ and if applicable, comply with local zoning, and comply with FEMA guidance for base flood elevations;⁵

- Guarantee that a home will remain owner-occupied for at least three years after the repairs, replacement or relocation has occurred; and
- Agree to subrogate claims for unpaid and outstanding insurance claims back to the Program.

For owners who have received Small Business Administration Loans for repairing the “structure” (as opposed to replacing “contents”), the amount of the grant assistance will be reduced by a formula that takes into account the value of the SBA interest rate discount.

2.4 Amounts and Forms of Assistance

Maximum Assistance

The maximum assistance for owner-occupants is \$150,000. The proposed ceiling assumes that:

- All federal funds allocated to and sought for the program will be available; and
- Estimates of likely demand for assistance derived from FEMA data are accurate.

If sufficient funds are not made available or demand exceeds estimates, the maximum amount of assistance per household will be lowered.

Not every homeowner is necessarily entitled to the maximum amount of assistance and in most cases the Program will not provide 100% of the required financing. All homeowners will be required to contribute their insurance payments for damage to the structure of the home and their FEMA payments towards the cost of repairs or replacement. And, assistance will be tailored to homeowner’s losses and needs. For example, a homeowner that suffered only 40% damage to the home may not receive as much repair assistance as an owner with 80% damage.

The amount of eligible assistance will be:

Eligible Assistance = Lesser of:	
<ul style="list-style-type: none">• Allowable Repair or Rebuilding Costs + Mitigation Costs (minus) Insurance (minus) FEMA Repair Payment	OR
<ul style="list-style-type: none">• \$150,000	

⁴ A number of communities have not yet adopted or implemented the State Uniform Construction Code. Pursuant to the State’s commitment to rebuild safer and stronger communities, homeowner assistance provided by The Road Home will be contingent upon adoption and enforcement of the code..

⁵ Home in historic districts will be required to meet additional standards.

To establish the allowable cost basis for the eligible assistance necessary to help owners return to a home equivalent to their pre-storm structure, the program will enlist damage inspectors to determine the appropriate level of repair or replacement costs. It is the State's policy that participants in the Homeowner Assistance Program deserve a fair and independent projection of those costs, so the inspectors will base their estimates on a standard, equitable model of equivalent housing. The program also reserves the right to use damage estimates catalogued by FEMA and insurance companies for calculation of allowable repair or replacement costs where those estimates are deemed reliable.

Forms of Assistance

Homeowners may receive two tiers of financing depending on their circumstances: a Program Grant and an Affordable Loan Package. The proportion of the financing that is structured as a grant and a loan will vary depending on a range of issues such as pre-storm value and whether the property, if in a flood zone, was insured against floods.

Pre-storm value will be set as the greater of the fair market value as determined by automated valuation methods (AMV), the home's assessed value for property tax purposes, insured value, or value established by a recent pre-storm appraisal, with an opportunity for appeal.

A. Assistance to owners outside FEMA flood zones and for owners inside FEMA flood zones with a flood insurance policy in force at the time of the disaster:

The financing generally will be structured in two tiers.

- The first tier will be a Program Grant that is intended to restore the pre-storm value of the property. The Grant tier, up to the pre-storm value of the home at the time of the disaster, carries a forgivable lien on the owner's equity in the repaired or rebuilt home, up to the value of the original grant, which will be reduced incrementally over the life of the three-year owner-occupancy requirement.

Program Grant = Lesser of Pre-Storm Value (minus) Insurance (minus) FEMA Payments OR Eligible Assistance Amount

- The second tier, if additional funds are required, will be a Program Loan Package that provides the balance of funds for repair, rebuilding, or relocation. The Loan Package may consist of a loan from the Program, from a private mortgage lender, or both. In any case, the Loan Package will be structured so that monthly payments are affordable to the homeowner. Such affordability determinations may take into consideration a spectrum of issues including, but not limited to age, disability, and income levels.

Affordable Loan Package = Eligible Assistance (minus) amount of Program Grant

For instances in which the sum of remaining pre-storm loans and the affordable loan portion of the assistance package exceed the market value of the home, policies will be developed to mitigate the impacts of “negative equity” positions on the home and homeowner by adjusting the repayment terms, but not the maximum amount of assistance (\$150,000).

B. For owners inside FEMA flood zones who did not have flood insurance in force at the time of the disaster:

The financing will be the same as above, except that the Program Grant portion of assistance will be reduced by 30% and the assistance provided as a loan will be increased by that amount deducted from the Grant. Owners in this category still will be eligible to receive up to the same maximum financial assistance at affordable terms as other homeowners. They will, though, have more responsibility for repaying the assistance than their neighbors who followed prudent practices for homes in flood zones and bought flood insurance.

EXAMPLE HOMEOWNER #1

PROJECT STATS

Program Maximum Assistance	\$150,000
Rebuilding Costs	\$ 50,000
Insurance Payments	\$ 19,800
FEMA Funds Available	\$ 5,200
Pre-Storm Value	\$100,000

Maximum Assistance Amount is Lesser of :

\$150,000 Program Ceiling	or	\$ 50,000	Rebuild Costs
		- \$ 19,800	Insurance
		- \$ 5,200	FEMA
		=	\$ 25,000

Grant Amount is Lesser of :

\$25,000 Maximum Assistance Amount (from above)	or	\$ 100,000	Pre-storm Value
		- \$ 19,800	Insurance
		- \$ 5,200	FEMA
		=	\$ 75,000

Loan is:

\$25,000 Maximum Assistance Amount	-	\$25,000 Grant	=	\$0
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EXAMPLE HOMEOWNER #2

PROJECT STATS

Program Maximum Assistance	\$ 150,000
Rebuilding Costs	\$ 150,000
Insurance Payments	\$ -
FEMA Funds Available	\$ 5,200
Pre-Storm Value	\$ 100,000

Maximum Assistance Amount is Lesser of :

\$150,000 Program Ceiling	or	\$ 150,000	Rebuild Costs
		- \$ -	Insurance
		- \$ 5,200	FEMA
		= \$ 144,800	

Grant Amount is Lesser of :

\$145,000 Maximum Assistance Amount (from above)	or	\$ 100,000	Pre-storm Value
		- \$ -	Insurance
		- \$ 5,200	FEMA
		= \$ 94,800	

Affordable Loan is:

\$144,800 Maximum Assistance Amount	-	\$94,800 Grant	=	\$50,000
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2.5 Owners' Options for Assistance

Homeowners will have four options for using financial assistance.

Option 1: Repair

Homeowners may elect to repair their properties. However, if the cost of repair is greater than the costs of replacing the home, the funds must be used to replace the home or the owner must pay the extra cost by placing additional funds into an escrow account before the project commences.

Option 2: Replace

Where existing homes are beyond repair, or repairs cost more than a replacement home, many homeowners will choose to rebuild a comparable home on the site of their former home. When owners rebuild they will be provided financial assistance calculated as follows: The lesser of eligible rebuilding costs minus insurance payments for structural losses and FEMA payments OR \$150,000.

The program will enlist damage inspectors to determine the appropriate level of repair or replacement costs for properties in question.

No discussions have yet been held with respect to existing mortgages. Some of the issues that may be negotiated with lenders include refinancing of existing debt and time extensions for repaying mortgages.

Option 3: Buyout/Relocate

The buyout/relocation option allows homeowners to receive compensation for their damaged or destroyed property and purchase an existing home or build a new home in Louisiana.

This option will be particularly beneficial to individuals that resided in areas that are no longer believed to be safely inhabitable, either by local authorities or by homeowners themselves, for risk of severe or recurring damage.

The maximum buyout/relocation assistance is the lesser of the allowable rebuild/replacement cost minus insurance payments for structural losses and FEMA payments **OR** \$150,000.

The program will impose requirements, in addition to the general restrictions, on owners who elect the buyout/relocate option:

- The home selected or built for resettlement must be of comparable proportions to the owner's old home and located within the State of Louisiana.
- Owners generally will be required to convey their original property to the State or another designated agency in exchange for assistance in purchasing a new home.
- Holders of secured loans or other legitimate liens on the original properties will generally be required to "transport" the liens to the new home and/or to refinance the new home purchase, as a condition of the owners receiving assistance and the lien holders' security being restored.

Option 4 – Sale of Home

Some owner-occupants may choose none of the basic options: to repair, replace or relocate in Louisiana. In these instances, the State or its agent may—subject to the availability of funds—negotiate a purchase of the property up to the maximum amount of assistance, not to exceed 60% of the pre-storm market value of the home. For these buy-outs to occur, a lien holder may be asked to write off a portion of the current outstanding principal balances of the loan or other lien

2.6 Treatment of Homeowners with Special Circumstances

Assignability: The program will allow an owner to sell his or her home on the open market, permitting the owner to assign rights to program grant assistance to the new buyer. Assigned grants will require the new buyer to carry the same three-year owner-occupancy requirement that governs the repair and rebuild options.

Owner Occupants Who Have Already Sold Their Principal Residence: Equitable policies and procedures will be determined at a later date that may provide Program assistance to an owner who has sold a home and otherwise would have qualified for assistance. These policies and procedures are not yet determined.

Owners Who Have Started or Completed Repairs: Assistance will be provided to owners who have already commenced or completed home repairs or the construction of replacement homes, so long as all the requirements of the Program are met. Policies will be set for discounting assistance amounts for any grants or below-market interest rate loans from government agencies that may have been received by an owner from for these purposes.

Owners Who Have Received Other Assistance: Policies will be set for discounting compensation amounts for any grants or below-market interest rate loans from government agencies that may have been received by an owner from for these purposes.

2.7 Accounts for Receipt of Funds

To ensure that funds provided to homeowners are invested in housing, Program funds will be placed in accounts in the owner's name. The accounts will be managed by financial institutions that are registered with the program, and will be subject to standard terms and conditions for releasing funds. There will likely be fees charged for managing the account and making payments. Rules and formulas will be set to guide the disbursement of funds to applicants who decide to opt out of the program, or to sell out his or her property before work is brought to completion.

2.8 Homeowner Assistance Centers – Process for Receiving Assistance

Louisiana has initiated a Call Center to allow former homeowners to indicate their interest in returning to their neighborhoods and investing in their homes. The Call Center is the first step in what will be an aggressive campaign to solicit applications for the home ownership programs.

When the program commences, eligible homeowners will be notified by mail and telephone to the greatest extent possible of the opportunity to apply for assistance. Information about financing programs and counseling services will be posted on public websites as well as provided through other resources such as Assistance Centers that will be established in various locations.

The Program will not publish application forms or detailed descriptions of the process for receiving assistance until the comment period has ended and the State of Louisiana has determined the amount of federal funds that will be available for all recovery programs.

In order to rebuild, most homeowners will have to navigate a maze of obstacles such as negotiating insurance settlements, dealing with mortgage issues, understanding the implications of new flood maps, and dealing with building contractors. Before the amount of financial assistance can be determined, an owner will have make decisions on whether to repair their home, replace it on-site, accept a buyout and relocate, or sell. If an owner has been unable to return to the

community, he or she will likely need temporary housing to live in while managing this process. While some homeowners can overcome these barriers themselves, many homeowners will need expert, trustworthy advisors, in addition to receiving financial assistance.

To respond to these needs, Assistance Centers will be the “storefronts” where homeowners can apply for assistance and gain access to advisory services. Rebuilding Advisors will help homeowners accomplish the following:

- Evaluate the four assistance options—repair, replace, relocate or sell—and the amount of financial assistance allowed for each;
- Advise owners on how to deal with mortgage issues, or refinance if necessary;
- Assist owners in selecting professional services providers such as home inspectors, architects, surveyors (for replacement homes) to design and prepare for repairing or replacing homes; and
- Assist owners in selecting repair contractors, homebuilders and manufactured housing companies.

The Assistance Centers will help mitigate the potential for misunderstanding and abuse by providing standardized, structured, and guided relationships between homeowners and service providers. In addition, the Assistance Centers will maintain registries of professional service providers and building contractors and homeowners will have a reasonable allowance to pay for professional design services.

The State of Louisiana will rely on its own staff as well as contracted services to run the Assistance Centers. See Section 5 for more details.

To open lines of contact between displaced Louisiana residents and *The Road Home*, citizens may now register key information about their damaged homes by calling 888-ROAD 2 LA (888-762-3252; TTY 1-800-566-4224) to submit that data to the State's registry, or logging on to a new, one-stop web portal - www.LouisianaRebuilds.info. This registry pertains only to homes that were occupied by homeowners and damaged by hurricanes Katrina or Rita.

Registrants calling *The Road Home* or logging onto www.LouisianaRebuilds.info will be asked to provide important information, including the resident's name, current address and the location of the affected home, phone numbers, mortgage information, the status of any insurance settlements and any FEMA or U.S. Small Business Association (SBA) applications or assistance.

3. Workforce and Affordable Rental Housing Programs

Several programs are under consideration to support the redevelopment of workforce and affordable rental housing. \$1.675 billion in CDBG funds are budgeted for these programs, along with an estimated \$1.7 billion in private equity investments through the use of Low Income Housing Tax Credits that were passed as part of the Gulf Opportunity Zone legislation, for a total of \$3.375 billion.

In the redevelopment of the state's rental housing stock, the LRA promotes several goals:

- Affordable rental housing should be made available to displaced residents of all income levels who wish to rent;
- Rental housing will necessarily support much of the workforce important to economic recovery;
- Affordable and market-rate housing will be integrated as mixed-income developments; and
- A portion of affordable rental units will host supportive services for families with special needs or high risks following their extended displacement.

3.1 Low-Income Housing Tax Credit (LIHTC) "Piggyback" Program

Under the LIHTC program, Congress has authorized tax incentives on the order of \$1.7 billion over three years that will lead to investments in the repair and new construction of affordable rental housing. LRA proposes to combine the resources of the LIHTC tax incentives, CDBG funding and leveraged private investments to generate 25,000 new or restored rental units, of which 10,000 will be rented at market rates and 15,000 will have below-market rents. The goal is not simply to restore the rental housing stock but to create new, mixed-income communities of choice to attract Louisiana's workforce to return home.

Assuming that total development costs average approximately \$120,000 per unit (accounting for post-disaster construction cost premiums), approximately 15,000 units with below-market rents can be financed with the LIHTC program. If total development costs are higher, the LIHTC program could finance fewer units. Project rents under the LIHTC program must be affordable to households with incomes at 60% of the area median income. Because of extra investment incentives built into the special allocation of LIHTC for disaster areas, LRA estimates that rents for the units can be made affordable to working families with incomes between 45% and 60% of area median income. However, without additional financial incentives, the LIHTC program will not produce housing affordable to the large numbers of renters with even lower incomes who were displaced during the disaster. It is a goal of the State to provide additional incentives to investors so that approximately 9,000 rental units produced by the LIHTC program can be reserved for—and affordable to—working families with incomes between 20% and 45% of area median income.

It is also a goal that affordable rental units be integrated into mixed-income communities in order to avoid creating large concentrations of residents living in poverty, which has been identified as a "best practice" in planning and recommended by the Louisiana Recovery Authority planning conference that was sponsored by the American Association of Architects (AIA) and the American Planning Association (APA) in November 2005, as well as the Bring New Orleans Back

Commission. Therefore, the LRA will work with the Louisiana Housing Finance Authority, which administers the LIHTC program, to assure that future rounds of LIHTC allocations require that most projects that are approved integrate affordable rentals and market-rate rentals. The intent is to use the powerful financial incentives of the LIHTC program and CDBG funding in tandem to leverage the construction of 10,000 market-rate rental units, which would have no federal funding or tax incentives.

A third goal is to provide additional incentives in conjunction with the LIHTC program to assure that some of the rental units will serve as supportive housing for renters with special needs, such as individuals and families that have been chronically homeless or have disabled family members.

Incentives being considered for CDBG funding of 9,000 units of rental housing at very low rents include:

- Gap financing to reduce the costs of debt service, so that lower rents (and lower cash flow) can be made feasible; and
- Funding of operating reserves for projects to enable rental property owners to charge lower rents.

Each of these mechanisms will help to reduce rents in a variety of projects. Gap financing will be needed for rehabilitation projects with very low rents, because the LIHTC generates less equity financing for rental projects. Funding of operating reserves to reduce rents is universally applied to LIHTC projects both independent of and in tandem with gap financing, so it is central to our projections for the use of CDBG funds.

The total estimated need for CDBG funding for 9,000 housing units with very low rents including program operating costs is \$600 million.

Project Eligibility

Developers will be eligible for CDBG funding for approved LIHTC rental projects for which developers agree to restrictions on rents and income of occupants for 20 years, as follows:

Target Household Income	Target Number of Units	Estimated CDBG Reserve Funding Needed per Unit	Total Estimated CDBG Funding Needed
20% AMI	3,000	\$93,000	\$279 million
30% AMI	3,000	\$65,000	\$195 million
40% AMI	3,000	\$13,000	\$111 million
50% AMI	3,000	\$0	\$0
60% AMI	3,000	\$0	\$0
Above 60% AMI	10,000	\$0	\$0
Totals:	25,000		\$585 million

LRA's calculations to determine the need for operating reserves will be provided on request.

3.2 Services Funding for Supportive Housing

The state intends to use CDBG funds or other financial resources that can be obtained to fund supportive services for 3,000 supportive housing units, the development of which will be financed by the LIHTC/CDBG program described above, as well as other HUD programs such as the McKinney Act. The LRA proposes that half of the 6,000 rental units targeted to households with incomes at or below 30% of area median income indicated in the table above will be supportive housing units. These supportive housing units will serve individuals and families with special needs, most importantly, renter households who are returning to Louisiana after having endured, very often, traumatic relocations from shelter to shelter, to hotels, and to other temporary living arrangements in other cities. Supportive housing units are also needed for returning families and individuals who are disabled, frail elderly, or have other special needs. This program component and use of CDBG funds for supportive services is proposed with the recognition that the number of supportive housing units that can be developed in Louisiana over the next few years will be severely limited by the scarcity of public and private funding for the necessary resident services.

The total estimated need is an average of \$25,000 per supportive housing unit in services funding, for a total of \$75 million. This assumes a \$5,000 per unit per year average cost of supportive services for five years.

3.3 Landlord Gap Funding Repair Program

Before the disaster, a large portion of very low working families resided in single-family homes, "doubles" and small multi-family buildings that were owned and operated by small-scale landlords. A sizeable number of these properties were underinsured or uninsured. The State is proposing to provide gap financing for the repair of 20,000 rental housing units in these properties. The primary purposes of the gap financing are to enable repairs to occur and to limit the amount of debt (and therefore debt service) required for the properties, so that the owners will be able to charge affordable rents. The program will provide gap financing up to \$25,000 to restore a rental unit renting at market rates, with higher funding amounts possible for landlords who agree to offer lower rents.

In exchange for accepting these incentives, property owners will be required to accept limitations on rents (with inflation clauses) and incomes of renters for a period of 10 years, to assure that the assisted housing is as affordable as possible and is occupied by families with incomes corresponding to several tiers of affordable rents. The amount of CDBG financing available will vary from \$25,000 to \$75,000 per unit—with higher amounts per unit being available to property owners who agree to offer the lowest rents. The assistance will be offered as deferred payment mortgages at 0% interest, due only upon resale of the property or failure to comply with the agreed-upon restrictions on rents and household incomes.

As with the homeowner program, small-scale property owners would be offered expert financial and construction advisors to assist them with refinancing and reconstruction, or if they so desire, to sell out their properties to developers using the LIHTC program.

But unlike the owner-occupant program, funding will be insufficient to provide every small-scale property owner with enough funding to repair or replace their rental properties. For this reason, guidelines and possibly competitive application processes will be established. Among the priorities for assistance that are under consideration are the following:

- Property owners demonstrating financial and technical capacity to obtain matching market-rate financing, if necessary, to carry out the repairs, and to provide excellent property management services; and
- Properties that are most cost-effective to repair or replace, and located in areas that have adequate infrastructure and have other redevelopment activities occurring.
- Properties held by small-scale landlords where rental revenue constituted a majority of household income and/or assets so long as these investor-owners meet the threshold requirements for capacity necessary to repair or replace, and then manage their units.

A number of unresolved issues remain when blending the owner-occupant program and the Landlord Gap Funding program to repair or replace a multi-unit building occupied by the owner. For example, it would be inequitable to other rental property owners to provide financial assistance to rental units at as high a level as for the owner-occupied unit (up to \$150,000 per unit). Furthermore, if the owner-occupant in a multi-unit building wanted to sell out, restoration of the pre-storm value to the owner of the rental units would be very costly. Such mixed occupancy structures are eligible only for the Homeowner Assistance Program at this time.

A total of \$1 billion is budgeted for this program, including program operating costs.

Based upon complete anticipated federal funding, projected CDBG funding estimates are as follows:

Household Income Group	Target Rents (2006 Dollars)	Target Number of Units	Maximum CDBG Funding/Per Unit	Total Estimated CDBG Funding Needed
50% AMI	\$460	6,500	\$75,000	\$487.5 million
65% AMI	\$600	6,500	\$43,000	\$279.5 million
"Market"	\$780 or less	7,000	\$25,000	\$175.0 million
Totals:		20,000		\$942 million

The formula for the amount of CDBG funding per rental unit is as follows:

Eligible Assistance Per Rental Unit = Lesser of:

- Allowable Rebuilding Costs + Mitigation Costs (minus) Insurance (minus) Maximum private financing the property rents will support

OR

- The Maximum CDBG funding amount described above

To the extent that property owners qualify for less than the maximum funding amount allowed per rental unit, the program will be able to support the repair of more rental units.

4. Other Developer Incentives

The State recognizes that communities that lost the most housing due to the Katrina and Rita disasters will need to have special incentives in place to attract new mixed-income housing development—to restore both the rental and for-sale housing stocks. Homeowners who elect to take the relocation option will likely need a steady and large supply of new homes. Therefore, the following developer incentives are proposed, with a special focus on the New Orleans metropolitan areas and other communities with major losses to their housing stock. A total of \$75 million has been budgeted for these incentives and associated operating, monitoring and auditing costs. LRA will refine the line item budget amounts for each program described below as the extent of federal funding is confirmed.

4.1 Housing Development Loan Fund

The Housing Development Loan Fund would provide seed funding for a contractor or state agency to establish one or more loan funds that offer acquisition and predevelopment financing on flexible terms to developers of the most critically needed housing. Providing early, high-risk capital will be a powerful incentive for developers to build mixed-income housing in the communities that lost the most housing. Loans would be made to nonprofit and for-profit developers of new rental and single-family housing that is affordable to families with incomes that are below the area median, with a strong preference for well-designed residential communities and infill housing developments that also include families with incomes higher than the area median.

The Housing Development Loan Fund would be operated by a state agency or an experienced community development loan fund manager. CDBG funds would be invested as “top loss” capital in order to leverage private investments. For example, a CDBG investment of \$40 million would be expected to leverage at least \$60 million in additional private investments. As one priority, the loan fund would target developers participating in the rental assistance programs described in the previous section, as well as developers of mixed-income for-sale housing. As projects close their construction financing, the acquisition/predevelopment loans would be repaid and the lending capital would become available for additional investments. In a three-year period, it is expected that the funds will recycle two to three times.

4.2 Land Assembly Operations

As an additional way to jump-start development in the communities that lost the most housing, the Land Assembly Initiative would provide seed money to organizations willing to acquire multiple properties in good locations for replacement housing and “package” them for sale to developers—for example, developers using LIHTC tax incentives to develop rental housing. If this program component were adopted, the State would likely issue requests for proposals to operate one or more land assembly operations, and provide seed funding through the CDBG program. The State would consider funding organizations engaged in land assembly only if:

- These activities were requested or supported by local governments; and

- Local governments have substantially engaged in the planning work required to target areas that are suitable for the development of replacement housing.

Properties assembled through buy-out programs, as detailed in LRA's proposed homeowner assistance program, might be offered to developers of affordable or special needs housing on a first right of refusal basis to help defray costs of development and ensure more deeply affordable rental properties. A target of such a program might be to assist primarily renters with incomes below 40% of area median income, but in mixed-income developments where possible.

4.3 Support for Faith-Based and Community-Based Housing Recovery Programs

The State is considering ways to provide matching funds for the recovery programs of faith-based and community-based organizations that are already assisting homeowners in repairing or replacing their homes, as well as organizations that need seed money to develop replacement housing. There are a number of possible ways that these organizations could support the homeowner assistance program and participate in programs such as the LIHTC program and the Housing Development Loan Fund.

4.4 Use of Program Income

The State will at a later date determine how income from sales of properties and collections of lien payments might be used. From a regulatory standpoint, recycled CDBG funds could be used for any eligible CDBG activity as described in the state's Annual Plans. However, all revenue generated by the program might be used to achieve more focused and long-term goals: such as dedicating and restricting the use of recycled housing funds for future affordable housing programs. This would, in effect, create a permanent Housing Trust Fund or multiple funds, which could be administered by a public or quasi-public agencies at the state or local government levels. The policies for reuse of revenues will be made at a later date, as detailed operational plans are being developed.

5. Implementation

The Governor's goal for implementation of the *The Road Home* Housing Programs is to rely primarily on the strengths of the private sector, while providing enough oversight to assure that the program is properly planned, managed and audited.

5.1 Oversight by the State of Louisiana

To assure that the oversight of the program has proper checks and balances to minimize fraud, waste and abuse, the following critical government functions will be assigned to three separate divisions of state government.

- Program planning, awards of implementation contracts and contract monitoring;
- Disbursing and receiving funds, such as for payment of homeowner assistance and receipt of income from land sales; and
- Internal audit.

5.2 Implementation Contracts

Subject to more detailed planning and negotiations with local and federal government agencies, the state envisions having a competitive process of awarding contracts to private-sector entities to:

- Prepare federally required environmental reviews;
- Help design operating plans, detailed policies, procedures and budgets for respective housing programs;
- Operate and manage various aspects of the Assistance Centers including provision of management information services, escrow services, financial advice, and support services;
- Performing property acquisition, asset management and disposition functions; and
- Manage the rental assistance and developer incentive programs.